

LINE ITEM INSTRUCTIONS FOR CACFP BUDGET **APPLICATION FY 2004**

ADMINISTRATIVE LABOR

Allowable Labor Costs

As per FNS Instruction 796-2, Rev 3, labor costs are allowable when the amounts claimed are based upon hourly rates that are reasonable for the service provided. Salaries or hourly rates for administrative labor will be considered reasonable when the rates charged are consistent with rates paid for similar work in the area in which the sponsor is located, the years of experience and level of education of the individuals performing the tasks, the requirements associated with the position, and the range of responsibility. The rates for similar sponsors and/or agencies will also be a factor as will the ability of the agency to maintain program integrity. Program labor may include fringe benefits, Social Security withholding tax, and retirement benefits. Sponsoring organizations must also follow all applicable local, state, and federal and labor laws.

Time and attendance reports, time distribution records and payroll records must document administrative labor for both salaried and hourly employees. A time sheet must track the hours and days worked on a monthly basis and contain a certification statement signed by the employee and supervisor, which confirms that hours reported are true and fairly represent employees work effort.

Labor costs associated with personnel who work part-time in the CACFP and part-time in other duties must be prorated based on hours worked for each activity. The time distribution reports, generally in one-hour increments, may be used to compute the amount of time spent on each program activity. Full time is considered to be 173 hours per month.

Individuals performing more than one function, such as a director who also monitors, must be entered on the budget on two separate lines showing salary adjustment for time spent in each activity and appropriate salary.

The performance of the sponsoring organization functions and the adequacy of resources allocated to those functions will also be considered. The state will evaluate whether your agency can afford the costs it has budgeted, within the constraints of its available funding, without jeopardizing program operations. A cost may be allowable, reasonable and necessary and *still* be inappropriate if it diverts a disproportionate level of resources from other, critical administrative functions. Sponsoring organizations must accurately allocate salary costs for employees who work on other programs besides the CACFP and provide documentation supporting this allocation.

Sponsoring organization must provide staff to adequately meet the needs of homes. Normal business hours are Monday through Friday, 8 a.m. to 5 p.m. or as determined by the board of directors.

Total administrative labor costs may not exceed 75% of the total budget.

A. Cost of Living Adjustments

When cost of living adjustments are proposed in the budget, they will be limited to the cost of living indexes for the sponsors' locale and, when approved by both the Board of Directors and the Department of Education, must be granted to all CACFP employees of the sponsoring organization.

B. Merit and Longevity Pay Increases

When proposed in the budget, merit and/or longevity pay increases must be based on a plan established and administered by the sponsor's Board of Directors and approved in advance by the Department of Education. The plan must include the organization's specific goals for the individual's position, objectives within each goal, a plan of action, time frame, and a listing and evaluation of the individual's accomplishments. Raises must have board approval and be offered to employees equitably. Submit a copy of the board minutes approving the raises. If raises are included in the budget, employees (who are also board members) benefiting from the increase may not be included in the board members voting.

If merit and/or longevity raises are expected to occur during the fiscal year, place an asterisk beside the employee(s) name. When raises are awarded, include your pay policy for issuing raises and step increments along with board minutes approving the raise. If raises have not been approved as a part of the agency's original budget, a budget amendment must be submitted and approved prior to increasing salary expenditures.

C. Incentive Payments and Awards

Incentive payments or awards may be offered to employees and charged to the CACFP when the compensation is based on an agreement entered into in good faith between the agency and its employees *before the services are rendered*. Incentive payments may be limited to a specific group of employees, but may not be limited to specific individuals, and can be made in the form of cash payments or additional vacation leave. Awards of minimal value (e.g., service pins, certificates of appreciation) are allowable when directly related to work performed on the CACFP.

Bonuses are not allowed.

D. Holiday and Vacation Leave and Sick Leave Benefits

Holiday and vacation leave benefits must be reasonable and consistent with such benefits provided for similar work. Specifically, paid holiday leave may not exceed the holiday schedule established by the board of directors.

Sick leave and vacation policy must have board approval and be offered to all employees equitably. Submit a copy of the board minutes approving the sick leave and vacation policy and a copy of the policy. To pay employees for unused sick leave and vacation, it must be included in the approved budget and be charged during the appropriate fiscal year.

Sponsoring organizations must provide staff to adequately meet the needs of homes. Sponsoring organizations must also follow all applicable local, state, federal, and labor laws. Full time is considered to be 173 hours per month. Benefits must be offered in a consistent and equal manner to all employees.

Administrative Labor Line Item Instructions

1a. Administrative Labor and Taxes (salaried employees only). The following are instructions per column number.

1. *Employee Name:* Enter salaried employee's name.
2. *Work Hours:* Enter employee's beginning and ending hours (include a.m. and p.m.).
3. *Gross Monthly Rate:* Enter employee's gross monthly rate of pay (excluding benefits).
4. *Total Hours for Agency:* Enter total number of hours employee works per month for the agency.
5. *Total Hours for CACFP:* Enter total number of hours employee works per month for the CACFP.
6. *Percent of Total Hours Worked for CACFP:* Enter percentage of time employee works on CCFP (divide column 5 by column 4).
7. *Total Required Employer Taxes:* Enter total required employer tax paid per month by your agency. The required employer tax includes Worker's Compensation, Unemployment Insurance, Social Security Tax, and any other required tax. (e.g., Gross Monthly Rate x .0765)
8. *Total Required Employer Taxes Paid by CACFP:* Enter total required employer tax paid per month with CACFP funds.
9. *Monthly Cost to CACFP:* Multiply percentage in column 6 by the amount in column 3. Next add amount in column 8 to total and enter sum in column 9.
10. *Annual Cost to CACFP:* Multiply column 9 by 12 (12 months).
11. *Grand Total of Annual Cost to CACFP:* Add the totals in column 10 and enter in box 11.

Report salaried positions necessary to the CACFP, but not funded by CACFP, in section 1c.

1b. Administrative Labor and Taxes (hourly employees only). The following are instructions per column number.

1. *Employee Name:* Enter hourly employee's name.
2. *Work Hours:* Enter employee's usual beginning and ending hours (include a.m. and p.m.).
3. *Gross Hourly Rate:* Enter employee's gross hourly rate of pay (excluding benefits).
4. *Total Hours for Agency:* Enter total number of hours employee works per month for your agency.
5. *Total Hours for CACFP:* Enter total number of hours employee works per month for the CACFP.
6. *Percent of Total Hours Worked for CACFP:* Enter percentage of time employee works on CACFP (divide column 5 by column 4).
7. *Total Required Employer Taxes:* Enter total required employer tax paid per month by your agency. The required employer tax includes Worker's Compensation, Unemployment Insurance, Social Security Tax, and any other required tax. (e.g., Work Hours x Gross Hourly Rate x .0765)
8. *Total Required Employer Taxes Paid by CACFP:* Enter total required employer tax paid per month with CACFP funds.

9. *Monthly Cost to CACFP*: Multiply amount in column 5 by the amount in column 3. Next add amount in column 8 to total and enter sum in column 9.
10. *Annual Cost to CACFP*: Multiply column 9 by 12 (12 months).
11. *Grand Total of Annual Cost to CACFP*: Add the totals in column 10 and enter in box 11.

Report hourly positions necessary to the CACFP, but not funded by CACFP, in section 1d.

Add totals of 1a through 1d and enter annual **Labor** on the CNP database.

2. **Benefits**. Complete all information for salaried and hourly employees. The following are instructions per column number.

1. *Employee Name*: Enter employee's name.
2. *Total Monthly Amount Paid by Agency*: Enter total dollar amount your agency pays per month for employee's health insurance.
3. *Total Monthly Amount Paid by CACFP*: Enter total dollar amount paid with CACFP funds per month for employee's health insurance.
4. *CACFP (% paid)*: Enter percentage of employee's health insurance paid with CACFP funds.
5. *Employee (% paid)*: Enter percentage of this employee's health insurance paid by employee.

Repeat steps 2 through 5 for each insurance type (Health, Dental, Life, Retirement and Other). Please specify any benefits listed under "Other."

23. *Monthly Cost to CACFP*: Add columns 3, 7, 11, 16, and 20. Enter totals in column 23.
24. *Annual Cost to CACFP*: Multiply column 23 by 12 (12 months) and enter in column 24.
25. *Grand Total of Annual Cost to CACFP*: Add the totals in column 24 and enter in box 25.

Attach a description of the insurance program(s) provided and a copy of the retirement plan. Include documentation supporting the percentage of benefits allocated to the CACFP.

Report benefits necessary to the CACFP, but not funded by CACFP, in section 2a.

Enter annual **Benefits** on the CNP database.

ADMINISTRATIVE SUPPLIES

Allowable Equipment and Supplies Costs

Equipment includes items that have a useful life expectancy of two years or more and an acquisition cost of \$5,000 or more per unit. A unit is defined as all components required to make the piece of equipment operational. Durable supplies have a useful life expectancy of less than two years (but greater than one year) and an acquisition cost of less than \$5,000 per unit. Lastly, office supplies are those items costing less than \$5,000 with less than one year useful life expectancy.

Durable supplies and office supplies may be charged directly to the CACFP at the time they are purchased, provided they are part of the approved budget. This is known as direct expensing.

Equipment must generally be charged to the CACFP via depreciation or a use allowance. Sponsors must submit a depreciation schedule for approval by the state agency and only the depreciated amount of the item can be included in the budget. Some equipment may be directly expensed at the time of purchase if approved in advance by the state. Sponsors must submit justification for directly expensing equipment, but if approved, the full cost of the equipment could be budgeted. Sponsors must submit a specific written request to purchase items costing more than \$5,000, and the State agency must issue prior written approval, before purchases can be made. Approval of budgetary line items does not constitute prior State agency approval to purchase specific equipment.

FNS retains an interest in any equipment purchased with Federal funds with a value of \$5,000 or more. Alert the state agency when planning to dispose of any equipment purchased with Federal funds having a value of \$5,000 or more.

If an alternate funding source is used for purchasing equipment, CACFP cannot be charged rental costs. However, a use allowance or depreciation based on a percentage of the total acquisition cost would be allowable if approved by the state agency at the time of request.

Administrative Supplies Line Item Instructions

- 3. Equipment Purchased \$5,000 and Over.** List all equipment costing \$5,000 or more, purchased wholly or in part with Federal funds. All equipment in this category must be depreciated. For projected expense items costing \$5,000 or more, three bids or quotes and a justification of need must be submitted prior to purchase. Sponsors must obtain specific written approval for equipment purchases from the State agency before they are made, in addition to budgetary line item approval. When purchasing equipment costing over \$10,000, additional procurement procedures must be followed. Attach documentation to support the percent used by the CACFP and for determining annual depreciation.

Report equipment necessary to the CACFP, but not funded by CACFP, in section 3a.

Enter annual **Depreciation and Use Allowance** on the CNP database.

- 4. Durable Supplies Purchased Under \$5,000, Greater than 1 Year Life Expectancy.** List all durable supplies to be purchased this fiscal year costing under \$5,000 and with a life expectancy of more than one year (e.g., desks, chairs, file cabinets, fax machines, computers, copiers, etc.). These costs can be charged to the program at the time they are purchased. Attach documentation to support the percent used by the CACFP. Additional documentation or justification may be required. Attach an inventory of all equipment currently available for use by CACFP staff, including the quantity and type of each item listed.

Report durable supplies necessary to the CACFP, but not funded by CACFP, in section 4a.

- 5. Office Supplies Purchased Under \$5,000, Less than 1 Year Life Expectancy.** List all office supplies to be purchased this fiscal year costing under \$5,000 and with a life expectancy of less than one year (e.g., paper, desk supplies, computerized forms (scan forms), computer software, copying supplies, etc.). Attach documentation to support the percent used by the CACFP.

Report office supplies necessary to the CACFP, but not funded by CACFP, in section 5a..

- 6. Educational Supplies Purchased Under \$5,000, Less than 1 Year Life Expectancy.** List and describe all educational supplies used in staff and provider training/education. Supplies must include some nutrition education materials. Attach documentation to support the percent used by the CACFP.

Report educational supplies necessary to the CACFP, but not funded by CACFP, in section 6a.

- 7. Postage.** List all postage charges (e.g., stamps, bulk mailing, certified mail charges and monthly postage meter refills). List the cost of the postage meter rental under Equipment Rental or Lease. Attach documentation to support the percent used by the CACFP.

Report postage necessary to the CACFP, but not funded by CACFP, in section 7a.

Add totals for lines 4 through 7 and enter the annual **Materials and Supplies** on the CNP database.

- 8. Professional Printing.** List all outside or professional printing services that will be used this fiscal year (e.g., printing forms, brochures, letterhead, handbooks, newsletters, etc.). Do not include the cost of in-house copying (this should be included under Office Supplies). Include specific descriptions (titles) and quantities. Attach documentation to support the percent used by the CACFP. You may be asked to provide additional documentation to support printing costs.

Report printing necessary to the CACFP, but not funded by CACFP, in section 8a.

Enter annual **Printing, Publishing and Reproduction** costs on the CNP database.

ADMINISTRATIVE SERVICES

Administrative Services Line Item Instructions

- 9. Facility and Space.** If office space is shared by more than one program, attach a description of the allocation method used to determine the CACFP portion of office space costs. If more than one office is used, provide rental/lease information for each. Attach a copy of each new or renewed lease and identify with attachment number(s).

If your organization's office space is partially or fully owned by the sponsoring organization, its personnel, or relatives/friends thereof, this constitutes a less-than-arms-length lease arrangement. Costs associated with less-than-arms-length lease arrangements are limited to what would be chargeable using depreciation or use allowances. Refer to the section on depreciation in Part II of these instructions for more information. Indicate whether office maintenance and/or utilities are included in the rental or lease agreement. Attach a description and documentation to support the method used to calculate costs charged to the CACFP.

Report office space costs necessary to the CACFP, but not funded by CACFP, in section 9a.

Enter annual **Facility and Space** on the CNP database.

- 10. Utilities.** List utility costs allocable to the CACFP that are not included in the office lease or rental agreement. Attach documentation supporting the percent of these costs charged to the CACFP.

Report utilities necessary to the CACFP, but not funded by CACFP, in section 10a.

Enter annual **Utilities** on the CNP database.

- 11. Insurance Premiums.** List the type of insurance issued, name of the insurance company, policy number, total cost, and costs allocable to the CACFP. Attach documentation supporting the percentage charged to the CACFP as well as copies of new or renewed policies. Costs associated with required, approved insurance policies are allowable. **[State agency to insert state-specific insurance requirements here, if applicable].**

Report insurance necessary to the CACFP, but not funded by CACFP, in section 11a.

Enter the annual **Insurance** cost on the CNP database.

- 12. Contracted Services.** List all contracted services for administrative or operating functions not performed by sponsoring organization personnel. Contracted services may include, but are not limited to office maintenance, accounting services, legal services, data processing services, etc. Costs for contracted services may be charged as they are incurred. Sponsoring organizations may not contract with organization employees, officers or board members. Attach copies of all contracts as well as documentation supporting the allocation of costs to the CACFP.

Report contracted services necessary to the CACFP, but not funded by CACFP, in section 12a.

Enter the annual **Contracted Services** on the CNP database.

- 13. Equipment Rental or Lease.** List all rented or leased equipment. Equipment rented or leased from sponsoring organization employees, officers, board members or friends/relatives thereof constitutes a less-than-arms-length lease arrangement and may only be charged to the CACFP via depreciation or a use allowance. Rental agreements or leases must be in the name of the organization. Attach copies of all equipment leases or rental agreements as well as documentation supporting the allocation of costs to the CACFP.

Report equipment rental/lease costs necessary to the CACFP, but not funded by CACFP, in section 13a.

Enter the annual **Equipment Rental or Lease** on the CNP database.

- 14. Communication.** List all telephone/communications-related costs. For cellular and pager charges, specify the number of cell phones and pagers available to CACFP staff to be charged to the Program. Attach documentation supporting the allocation of costs to the CACFP. Additional justification may be required. ***Sponsors must obtain specific written approval for cell phone and pager purchases before they are made, in addition to budget approval. Itemize all services included with the office telephone service and indicate the number of telephone lines.***

Report telephone costs necessary to the CACFP, but not funded by CACFP, in section 14a.

Enter the annual **Communication** expense on the CNP database.

- 15. Advertising/Public Relations.** Allowable advertising costs include the solicitation of bids, recruitment of personnel for the program, and disposal of surplus materials acquired for the CACFP. Advertising media include newspapers, magazines, radio and television, direct mail, world wide web, trade papers, pins, banners and similar goods. This section also includes public relations and service information costs, such as pamphlets, news releases and other information services to inform individuals, groups or the general public about the CACFP or to increase the sponsor's CACFP participation. Costs to solicit nonprogram business or increase attendance of children not eligible for the CACFP are unallowable. Attach documentation to support the allocation of costs to the CACFP, if applicable.

Report advertising/public relations costs necessary to the CACFP, but not funded by CACFP, in section 15a.

Enter the annual **Advertising/Public Relations** expense on the CNP database.

- 16. Dues, Subscriptions or Memberships.** List all dues, subscriptions or memberships for the sponsorship, including the purpose or benefit of these services. Indicated whether the membership is for a group of people or only a single individual. If the membership or

subscription benefits more programs than the CACFP, attach documentation supporting the allocation of costs to the Program. Memberships and subscriptions must clearly benefit the CACFP, and additional justification may be required.

Report membership costs necessary to the CACFP, but not funded by CACFP, in section 16a.

Enter the annual cost for **Memberships, Subscriptions or Professional Activities** on the CNP database.

17. Licensing Expenses. Effective April 27, 1998, administrative funds may be used to assist unlicensed day care homes who cannot obtain licensure/approval simply because they lack the funding to comply with licensing/approval standards. USDA has imposed some requirements to ensure public funds are targeted to providers most in need of financial assistance in meeting licensing standards, and are not provided to individuals who have the financial means to comply with licensing requirements on their own. Therefore, eligible providers are those whose income is verified by the Sponsoring Organization to render him/her eligible for Tier I reimbursement regardless of the provider's location.

The regulation reads:

Before sponsoring organizations expend administrative funds to assist family day care homes in becoming licensed, they shall obtain the following information from each such home: a completed free and reduced price application which documents that the provider meets the Program's income standards; evidence of its application for licensing and official documentation of the defects that are impeding its licensing approval; and a completed CACFP application. These funding requests are limited to \$300 per home and are only available to each home once.

List the total number of homes your sponsorship plans to assist in obtaining licensure this fiscal year, average assistance for each home (not to exceed \$300 per home) and the monthly/annual totals. Examples of administrative expenses USDA considers reasonable under this provision and which could readily be purchased for less than \$300 might include:

1. Small items/equipment such as smoke detectors, fire extinguishers, etc.;
2. Licensing fees and related expenses such as fingerprinting costs, the cost of health and fire inspections, etc.; or
3. Minor repairs such as the installation of railing on a staircase to a basement where the day care operation is being conducted.

Funds may not be used for general remodeling or renovation. Costs will be reimbursed based on actual expenses incurred, not on budgeted figures. The State agency will verify the allowability of all costs incurred during its administrative review.

Report licensing costs necessary to the CACFP, but not funded by CACFP, in section 17a.

Enter annual **Licensing Expenses** on the CNP database.

TRAVEL

Allowable Travel Costs

A. Mileage

Mileage may include staff travel for training, workshops, meetings, etc. If vehicles owned by the sponsoring organization or any of its employees are used for CACFP administrative duties, a mileage allowance not to exceed the prevailing rate may be charged to the CACFP. State agency current mileage reimbursement is **\$.345** per mile. The mileage allowance is considered to be the full cost for operating the vehicle including fuel, depreciation, insurance, and maintenance, but excluding the driver's salary.

B. Per Diem

Sponsors cannot exceed state-approved per diem rates for travel beyond one day. Please refer to the state travel handbook and include these rates with your budget materials. Receipts are not required for meals. Receipts are required for all lodging and parking, shuttle, and road/bridge tolls. Receipts must be maintained for audit and review purposes.

Out of state travel must be approved by State Agency at least one month prior to date of travel.

C. Travel within a single day

If travel is wholly within a single day, reimbursement for lunch while away from the office will not be allowed. However, if an employee leaves home on official business prior to 6 a.m. and is unable to return home before 7 p.m., a meal allowance may be made for breakfast, lunch and/or dinner for the traveler if the board of directors has approved a local travel policy.

D. Local travel

Travel records for local travel must include time logs, mileage logs, purpose of travel, destination, and name of individual traveling.

E. Out of state travel

Travel expenses may be claimed for persons to attend out-of-state conferences that relate to the CACFP. The number of staff that can attend out-of-state conferences must have been budgeted in the current FY prior to attending. The following criteria should be applied; however, this does not mean sponsors will be strictly limited to these thresholds. Sponsors must submit justification for extra travelers including a cost breakdown for per diem, lodging and transportation costs for all travelers.

# of homes claimed under each sponsor	# of staff to attend out-of-state meetings
1-500	2 staff members
501-1500	3 staff members
1501-2500	4 staff members
2501-3500	5 staff members

F. Unallowable Reimbursement

When overnight accommodations are furnished at no extra cost to the traveler (i.e., room furnished as part of the registration fee), no reimbursement may be claimed for lodging. When meals are included at no additional cost to the traveler in a registration fee, or official functions, no reimbursement may be claimed.

G. Inclusions and exclusions as to authorized expenses

In addition to meals and lodging, the following actual expenses incurred as a necessary part of approved travel may be claimed:

1. Registration fees (receipt required)
2. Telephone calls for CACFP business. Calls must be documented with purpose of call, to whom the call was made, and the time of day.
3. Commercial transportation cost actually paid by the traveler. A receipt is required for each individual ride in a commercial vehicle. Transportation costs may not be claimed for personal activities.
4. Road toll charges.
5. Rental care cost (receipt required)
6. Tips paid in conjunction with meals are included in the meal allowance and cannot be claimed separately.
7. Parking (receipts required)

The following expenses are not authorized for reimbursement:

1. Entertainment expenses
2. Personal expenses such as magazines and snacks
3. Travel insurance
4. Alcoholic beverages
5. Parking tickets and fines

Travel Line Item Instructions

18. Travel for Program Operations/Monitoring. List costs for provider monitoring and technical assistance visits, travel to provider training (if applicable), and all other program-related activities. Travel for sponsor staff training, meetings and conferences should be reported under

either Travel for In-State Meetings or Travel for Out-of-State Meetings. Include employee names, purpose for travel and monthly average costs.

Report program travel necessary to the CACFP, but not funded by CACFP, in section 18a.

Enter annual expense for **Travel for Program Operations** on the CNP database.

19. Travel for In-State Meetings, Workshops and Related Staff Training. List travel costs associated with sponsor staff training such as attendance at annual State agency training, in-state conferences, or state sponsor association meetings. Specify the meeting or conference to be attended, the names or number of employees traveling, and associated travel costs for each meeting. Meetings and conferences must be CACFP-related.

Report in-state travel necessary to the CACFP, but not funded by CACFP, in section 19a.

20. Travel for Out-of-State CACFP-Related Conferences or Training. List all estimated out-of-state travel costs, specifying the conference title, names or number of employees traveling, and associated costs. Provide a written request with actual expenses 30 days prior to travel. If the conference or event is not CACFP-focused, travel costs must be prorated. If a conference is not solely CACFP-related, costs must be prorated between programs. Attach documentation supporting the percentage allocated to the CACFP.

Report out-of-state travel necessary to the CACFP, but not funded by CACFP, in section 20a.

Total the annual costs for item 19 and 20 and enter annual **Meetings and Conferences** expense on the CNP database.

TRAINING AND EDUCATION

21. Annual Provider Training. Both Federal and state governments are making great efforts to emphasize the nutrition education aspect of the Child Nutrition Programs. The State agency believes a reasonable amount of the federal dollars available for CACFP administrative reimbursement, currently established at 1.5% of the Program budget, should be prioritized for nutrition education of providers in proportion to their training needs. Please keep this in mind when budgeting provider training costs.

List all non-travel related costs for conducting provider training workshops. Include the number and location of the workshops you plan to conduct. Attach copies of training agendas as well as documentation supporting the percent allocated to the CACFP, if applicable.

Report provider training costs necessary to the CACFP, but not funded by CACFP, in section 21a.

Enter annual **Participant Training and Other Support** cost on the CNP database.

22. Staff Training. List all non-travel related costs for conducting staff training workshops. Include the number and location of the workshops you plan to conduct, as well as how frequently staff training is provided (e.g., monthly, quarterly, training for new staff, etc.). Attach copies of training agendas as well as documentation supporting the percent allocated to the CACFP, if applicable.

Report staff training necessary to the CACFP, but not funded by CACFP, in section 22a.

Enter annual **Staff Training** cost on the CNP database.

23. Indirect Costs. Attach a copy of your organization's cost allocation plan, including detail on costs included in the indirect cost pool. If applicable, attach documentation of the approval of your cost allocation plan and indirect cost rate by your organization's cognizant agency.

Enter the annual **Indirect Cost** amount on the CNP database.

PART II: GENERAL BUDGET INSTRUCTIONS

I. Considerations for Preparing the CACFP Administrative Budget

Each sponsoring organization of child care homes is entitled to administrative reimbursement. With each fiscal year's application, each sponsor must submit an administrative budget, which reflects its anticipated needs for the coming fiscal year, details line item costs, justifies entries, and supports allocation of costs. Based on this information, the State agency approves an annual administrative budget for each sponsor.

The State agency reviews the budget to ensure the individual line items are necessary, reasonable, and allowable uses of CACFP funds.

If budgeted costs exceed the expected CACFP reimbursement, sponsors must indicate how these costs will be supported. The application will not be approved without an approved annual budget. A budget will not be approved in excess of projected homes times rates, considering historical growth and available outside funding.

The budget must identify an adequate level of funding for all required administrative functions, including but not limited to training, monitoring, financial management, record keeping and reporting. Experience has shown that, generally, a non-military or non-tribal sponsor should have a minimum of 50 family child care homes to achieve the financial stability required to maintain program integrity. Sponsoring organizations with fewer homes must clearly demonstrate how they propose to meet the above requirements.

II. Administrative Reimbursement

CACFP regulations establish limits on the amount of administrative payments sponsoring organizations of child care homes can receive. Payments will be made based on the lesser of the following year-to-date amounts:

1. actual administrative costs;
2. the homes times rates calculation; and
3. the administrative budget.

As a secondary comparison reimbursement cannot exceed thirty percent of the total cost of the program (provider reimbursement plus administrative costs).

There is no guarantee that payments will cover actual costs incurred. Organizations must maintain solvency to meet CACFP eligibility requirements.

III. General Budget Criteria

In order to charge administrative costs to the CACFP, the sponsoring organization must have the authorization of its Board of Directors and the approval of the State Agency.

To be allowed, the costs:

- must represent an actual operating/administrative cost incurred in the normal course of conducting the program;
- are necessary and reasonable for proper and efficient administration of the program, and within the guidelines of the Food And Nutrition Service (FNS) Instruction 796-2, Revision 3, Financial Management;
- are authorized or not prohibited under state or local laws or regulations;
- conform to any limitations or exclusions set forth in FNS Instruction 796-2, Rev 3, Federal laws, or the governing regulations as to types or amount of cost items;
- are accorded consistent treatment through the application of generally accepted accounting principles;
- not be assignable or included as a cost to any other federally financed program in either the current or prior period;
- are net of all applicable credits;
- are properly allocated; and
- are adequately documented.

IV. Budget as a Management Tool

Given the criteria specified in Program regulations for determining child care home sponsor administrative costs reimbursement (i.e., reimbursement based on the lesser of rates times homes, actual expenditures, or the budget), some sponsors may overestimate their budgets to assure reimbursement potential. However, the practice of inflating the budget tends to increase expenditures in excess of available reimbursement, thereby jeopardizing sponsor operations.

The budget should be a tool for the sponsor and the State Agency to estimate the cost of running the sponsor's program. The sponsor should try to have actual expenditures closely approximate the budget. The budget must accurately reflect what is occurring in the sponsoring organization at any given time.

As a good management practice, sponsors must review the budget periodically to ensure they adhere to line item totals when claiming administrative costs throughout the year. Sponsors must/should regularly track and reconcile the year-to-date status of the administrative expenditures and the approved budget amounts. Sponsors should/must make amendments when changes in participation or activities occur.

V. Mid-Year Budget Revisions

Once the administrative budget has been approved, the sponsor is expected to adhere to it (i.e., pay salaries as stated in the budget). The State Agency will evaluate adherence to the approved budget during sponsor reviews. Some changes to line items will require prior approval. These include but are not limited to equipment, travel and salaries.

Without State Agency approval, sponsors may shift small amounts of money between line items in the approved budget, provided the total dollar amount is not increased, spending minimums and maximums are met, and no line item is increased by \$1,000 or 10 percent, whichever is less. The sponsor must keep proper documentation of these shifts and the reasons for doing so.

Sponsors must submit budget revisions whenever changes to the following line items are made:

- salaries and benefits
- equipment
- travel, and
- consultant/contract services

Sponsors must wait until state approval is received for revisions to any of these categories before making new expenditures. For equipment purchases, attach a copy of the contract purchase agreement or specifications sheet with your budget. Costs incurred prior to the effective date of the budget amendment are not allowed.

Budgets may not be revised after the end of the federal fiscal year.

VI. Eligibility of Costs

Refer to FNS Instruction 796-2, Rev. 3, for detailed information on CACFP financial management, including allowable and unallowable costs. Other references include Office of Financial Management and Budget (OMB) Circular A-122, OMB Circular A-87, U.S. Department of Agriculture (USDA) Management Improvement Guidance, and State Agency policies and manuals.

VII. Estimated Growth Factor

Base budgets for the new fiscal year on the average actual monthly administrative cost from the previous fiscal year plus the 10% reasonable growth factor if applicable. Use the projected budget and homes growth formulas applicable to the number of homes.

Sponsors must justify in writing the basis for any increase of anticipated growth. Except in extenuating circumstances, any budget increase which exceeds growth during the previous year will not be approved.

Budgets can be amended over the course of the year to accommodate growth or loss in the number of participating homes.

VIII. Depreciation

Depreciation is the expense associated with the use of equipment, vehicles and facilities in the program. Depreciation may be claimed as an allowable operating cost. Donated equipment may not be depreciated.

All depreciation claimed for federal reimbursement must be documented. All records for the full depreciation period must be retained during the life of the equipment for three years after the end of the federal fiscal year during which an equipment item is fully depreciated. Records must be retained beyond this point if audit findings have not been resolved.

Depreciation is based on acquisition cost and the life expectancy of the asset. The computation must exclude the cost of any portion of the cost of the equipment donated or borne directly or indirectly by the federal government through charges to the federal grant programs or otherwise, regardless of whom owns or has owned the asset. The cost of depreciation idle or obsolete equipment is unallowable. Please refer to FNS Instruction 796-2 for more information on depreciation.

A use allowance may be used in lieu of depreciation; however, a combination of the two may not be used for a single set of assets with some exception. The maximum annual rate for use allowances for buildings and improvements cannot exceed two percent of the acquisition cost; and for equipment, the rate cannot exceed six and two-thirds percent of the acquisition cost. Refer to FNS 796-2 for additional information.

Adequate property records must be maintained. Any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for all like assets for all federally sponsored programs. The depreciation method must result in equitable charges considering the use of assets and the benefits to the program.

No depreciation may be allowed on any assets considered fully depreciated.

IX. Direct and Indirect Cost Allocation

Institutions with multiple funding sources and/or multiple functions must develop a cost allocation plan when the institution claims costs for reimbursement or utilizes nonprofit food service account funds to pay for costs. Shared costs may be allocated either directly or indirectly to the programs/functions they benefit. Institutions must assign a method for allocating shared costs which most closely and reasonably reflects the degree of benefit afforded to each program/function.

Allocation methods must be approved as part of the administrative budget. Sponsors must submit a cost allocation plan when indirect costs are listed in the budget. Sponsors must include the basis for any specified rate.

X. Finalizing the Budget

- Please check and recheck all calculations in the budget.
- Be sure all requested support documents including job descriptions, rental or lease agreements, etc. are attached. Also be sure such documents show the same expense as listed in the applicable budget section. Attach or write clarifications whenever necessary for explanation.
- Submit a copy of any retirement plans.
- Keep a copy of the budget submitted for approval, with all supporting documentation, for your own records.
- Refer to FNS Instruction 796-2, Rev 3, or call the State Agency for assistance in determining allowable costs. Also, refer to OMB Circulars A-122 and A-87, state agency policies and manuals.
- Budgets must have written Board of Director approval.

XI. Federal Regulations and Uniform Requirements

The CACFP is authorized by Section 17 of the National School Lunch Act, as amended. Program regulations issued by the Department are found in 7 CFR 226.

The uniform requirements for the administration of grants and the principles for determining applicable costs and factors affecting allocation of costs for management of grant programs are provided in 7 CFR 3015 and 3019, Uniform Federal Assistance Regulations; 7 CFR 3017, Government-Wide Debarment and Suspension (Non-procurement); 7 CFR 3018, New Restrictions on Lobbying; OMB Circulars A-87, Cost Principles for State and Local Governments; A-102, Uniform Requirements for Assistance to State and Local Governments; A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations; A-122, Cost Principles for Non-profit Organization; FNS Instruction 796-2 (current revision); and 48 CFR 31, Contract Cost Principles and Procedures.

Audit requirements are contained in OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and in 7 CFR Part 3052.

Further guidance on administrative budgets can be found in the Management Improvement Guidance issued in 1997 and 1998.